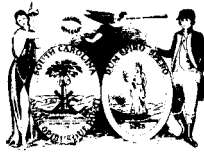


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA  
STATE AUDITOR

(803) 253-4160  
FAX (803) 343-0723

June 22, 2005

Mr. Craig G. DeKany, Reimbursement Manager  
HCR – Manor Care  
Post Office Box 10086  
Toledo, Ohio 43699-0086

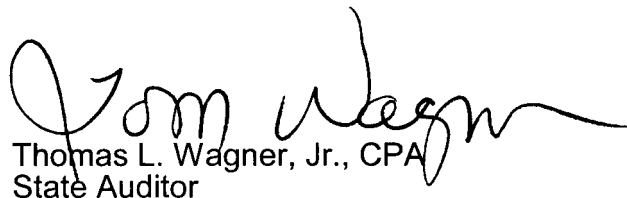
Re: AC# 3-ELH-J1 – Health Care & Retirement Corporation of America  
d/b/a Heartland Health Care Center - Charleston

Dear Mr. DeKany:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 2000 through September 30, 2001. That report was used to set the rate covering the contract period beginning January 1, 2003.

We are recommending that the Department of Health and Human Services certify an accounts payable for amounts underpaid as a result of the rate changes shown on Exhibit A. You will be notified of settlement terms by that agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

  
Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/ksg

cc: Ms. Brenda L. Hyleman  
Mr. Jeff Saxon  
Ms. Kathleen C. Snider

**HEALTH CARE & RETIREMENT  
CORPORATION OF AMERICA  
D/B/A HEARTLAND HEALTH  
CARE CENTER - CHARLESTON**

**HANAHAN, SOUTH CAROLINA**

**CONTRACT PERIOD  
BEGINNING JANUARY 1, 2003  
AC# 3-ELH-J1**

**AGREED-UPON PROCEDURES REPORT  
ON CONTRACT  
FOR  
PURCHASE OF NURSING CARE SERVICES  
WITH  
STATE OF SOUTH CAROLINA  
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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# State of South Carolina



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### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

June 7, 2005

Department of Health and Human Services  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures enumerated below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Health Care & Retirement Corporation of America d/b/a Heartland Health Care Center - Charleston, for the contract period beginning January 1, 2003, and for the twelve month cost report period ended September 30, 2001, as set forth in the accompanying schedules. The management of Health Care & Retirement Corporation of America d/b/a Heartland Health Care Center - Charleston is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the South Carolina Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

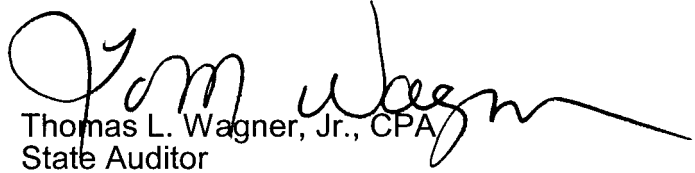
The procedures and the associated findings are as follows:

1. We selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Health Care & Retirement Corporation of America d/b/a Heartland Health Care Center - Charleston, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the Provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the South Carolina Department of Health and Human Services and Health Care & Retirement Corporation of America d/b/a Heartland Health Care Center - Charleston dated as of October 1, 2001 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services  
State of South Carolina  
June 7, 2005

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.



Thomas L. Wagner, Jr., CPA  
State Auditor

**HEARTLAND HEALTH CARE CENTER - CHARLESTON**

Computation of Rate Change  
For the Contract Period  
Beginning January 1, 2003  
AC# 3-ELH-J1

	01/01/03- <u>09/30/03</u>
Interim Reimbursement Rate (1)	\$121.30
Adjusted Reimbursement Rate	<u>123.27</u>
Increase in Reimbursement Rate	\$ <u>(1.97)</u>

- (1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 6, 2004

**HEARTLAND HEALTH CARE CENTER - CHARLESTON**  
Computation of Adjusted Reimbursement Rate  
For the Contract Period January 1, 2003 Through September 30, 2003  
AC# 3-ELH-J1

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 59.31	\$59.01	
Dietary		11.04	11.63	
Laundry/Housekeeping/Maintenance		<u>7.45</u>	<u>10.22</u>	
Subtotal	\$ <u>3.06</u>	77.80	80.86	\$ 77.80
Administration & Medical Records	\$ <u>-</u>	<u>22.95</u>	<u>12.63</u>	<u>12.63</u>
Subtotal		100.75	\$ <u>93.49</u>	90.43
<u>Costs Not Subject to Standards:</u>				
Utilities		3.27		3.27
Special Services		.01		.01
Medical Supplies & Oxygen		4.11		4.11
Taxes and Insurance		10.03		10.03
Legal Fees		<u>.10</u>		<u>.10</u>
<b>TOTAL</b>		<u>\$118.27</u>		107.95
Inflation Factor (3.70%)				3.99
Cost of Capital				9.58
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				3.06
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(1.31)</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$123.27</u>

**HEARTLAND HEALTH CARE CENTER - CHARLESTON**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2001  
AC# 3-ELH-J1

<u>Expenses</u>	<u>Totals (From Schedule SC 13) as Adjusted by DH&amp;HS</u>	<u>Adjustments</u> <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$2,125,661	\$ -	\$122,351 (5) 8,252 (5)	\$1,995,058
Dietary	383,970	-	12,557 (5)	371,413
Laundry	51,546	-	2,565 (5)	48,981
Housekeeping	128,126	716 (6)	7,474 (5) 673 (7)	120,695
Maintenance	82,838	455 (6)	2,074 (5) 443 (7)	80,776
Administration & Medical Records	796,844	3,387 (6)	23,393 (5) 1,420 (5) 3,431 (7)	771,987
Utilities	109,926	600 (6)	601 (7)	109,925
Special Services	212	-	27 (5)	185
Medical Supplies & Oxygen	166,784	-	27,323 (4) 1,345 (5)	138,116
Taxes and Insurance	198,011	140,034 (3) 1,063 (6)	1,813 (7)	337,295
Legal Fees	3,496	17 (6)	18 (7)	3,495



**HEARTLAND HEALTH CARE CENTER - CHARLESTON**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2001  
AC# 3-ELH-J1

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		Adjusted <u>Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	322,698	25,936 (2) 2,332 (6)	19,704 (1) 1,534 (7) 7,629 (8)	322,099
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Subtotal	4,370,112	174,540	244,627	4,300,025
Ancillary	162,981	27,323 (4)	-	190,304
Nonallowable	390,388	19,704 (1) 181,458 (5) 8,513 (7) 7,629 (8)	25,936 (2) 140,034 (3) 8,570 (6)	433,152
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Operating Expenses	<u>\$4,923,481</u>	<u>\$419,167</u>	<u>\$419,167</u>	<u>\$4,923,481</u>
Total Patient Days	<u>33,638</u>	<u>-</u>	<u>-</u>	<u>33,638</u>
Total Beds	<u>96</u>			

**HEARTLAND HEALTH CARE CENTER - CHARLESTON**  
Adjustment Report  
Cost Report Period Ended September 30, 2001  
AC# 3-ELH-J1

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$308,160	
	Other Equity	435,670	
	Nonallowable	19,704	
	Fixed Assets		\$743,830
	Cost of Capital		19,704
	To adjust fixed assets and related depreciation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
2	Cost of Capital	25,936	
	Nonallowable		25,936
	To adjust depreciation expense to comply with capital cost policy		
	State Plan, Attachment 4.19D		
3	Taxes and Insurance	140,034	
	Nonallowable		140,034
	To adjust liability insurance expense		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
4	Ancillary	27,323	
	Medical Supplies		27,323
	To reclassify expense to the proper cost center		
	DH&HS Expense Crosswalk		
	State Plan, Attachment 4.19D		
5	Nonallowable	181,458	
	Nursing		122,351
	Restorative		8,252
	Dietary		12,557
	Laundry		2,565
	Housekeeping		7,474
	Maintenance		2,074
	Administration		23,393
	Medical Records		1,420
	Medical Supplies		1,345
	Special Services		27
	To adjust fringe benefits and related allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		

**HEARTLAND HEALTH CARE CENTER - CHARLESTON**  
Adjustment Report  
Cost Report Period Ended September 30, 2001  
AC# 3-ELH-J1

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Housekeeping	716	
	Maintenance	455	
	Administration	3,387	
	Legal	17	
	Utilities	600	
	Taxes and Insurance	1,063	
	Cost of Capital	2,332	
	Nonallowable		8,570
	To reverse DH&HS adjustment to remove indirect cost applicable to a non- reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
7	Nonallowable	8,513	
	Housekeeping		673
	Maintenance		443
	Administration		3,431
	Legal		18
	Utilities		601
	Taxes and Insurance		1,813
	Cost of Capital		1,534
	To remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
8	Nonallowable	7,629	
	Cost of Capital		7,629
	To adjust capital return State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$1,162,997</u>	<u>\$1,162,997</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

**HEARTLAND HEALTH CARE CENTER - CHARLESTON**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 2001  
AC# 3-ELH-J1

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.4607</u>
Deemed Asset Value (Per Bed)	38,431
Number of Beds	<u>96</u>
Deemed Asset Value	3,689,376
Improvements Since 1981	506,023
Accumulated Depreciation at 9/30/01	(1,134,051)
Deemed Depreciated Value	3,061,348
Market Rate of Return	<u>.0577</u>
Total Annual Return	176,640
Return Applicable to Non-Reimbursable Cost Centers	(944)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>747</u>
Allowable Annual Return	176,443
Depreciation Expense	147,256
Amortization Expense	-
Capital Related Income Offsets	(66)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(1,534)</u>
Allowable Cost of Capital Expense	322,099
Total Patient Days (Minimum 96% Occupancy)	<u>33,638</u>
Cost of Capital Per Diem	\$ <u>9.58</u>

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